

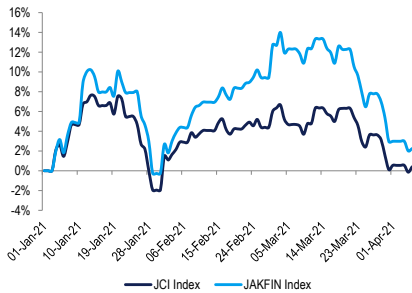
Banks

OVERWEIGHT (unchanged)

Sector Update | 06 April 2021

Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	0.2%	27.5%	32.6%
Relative to JCI	1.9%	6.5%	7.9%



Summary Valuation Metrics

P/E (x)	2021F	2022F	2023F
BMRI IJ	11.7	9.4	8.6
BBRI IJ	17.4	12.8	11.2
BBNI IJ	13.2	6.1	5.6
P/BV (x)	2021F	2022F	2023F
BMRI IJ	1.4	1.3	1.2
BBRI IJ	2.4	2.1	1.9
BBNI IJ	0.9	0.8	0.8
Div. Yield	2021F	2022F	2023F
BMRI IJ	3.5%	5.1%	6.4%
BBRI IJ	1.4%	2.3%	3.1%
BBNI IJ	1.1%	2.7%	5.7%

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Concall takeaways: untapped digital potential for SOE banks

- We recently hosted conference calls with BRI and Mandiri's IT director to discuss its respective digital strategy going forward.
- Few takeaways: 1) Covid fastens the shift from conventional to digital channel; 2) digital loan from tech partnership has been very minimal.
- Given the massive customer base of these banks, we believe the upside potential to its digital channel traction remained massive.

BMRI takeaways: Livin 2.0 is expected to be a game changer

During our conference call with BMRI; management explained that there is a big shift towards digital channel and Covid only accelerate the process. ATM which used to dominate overall transaction by big margin - 79% transaction was being done through ATM in FY15, but only 55% in FY20; whereas digital (mobile and internet) rose to account for 35% of overall transaction in FY20 vs. 11% in FY15. As such, it plans to introduce Livin 2.0 to replace its previous Mandiri internet/mobile banking; we think this is a game changer as: 1) it will integrate the offerings of subsidiaries (i.e. securities trading, auto loan, insurance, etc) and ecosystem (e-money, e-commerce, etc.) under one platform; and 2) provide better and more stable digital channel. Worth to note that BRIMo (BRI Mobile) was a big game changer for BRI and resulted in much higher fee based income ([link to our previous note](#)).

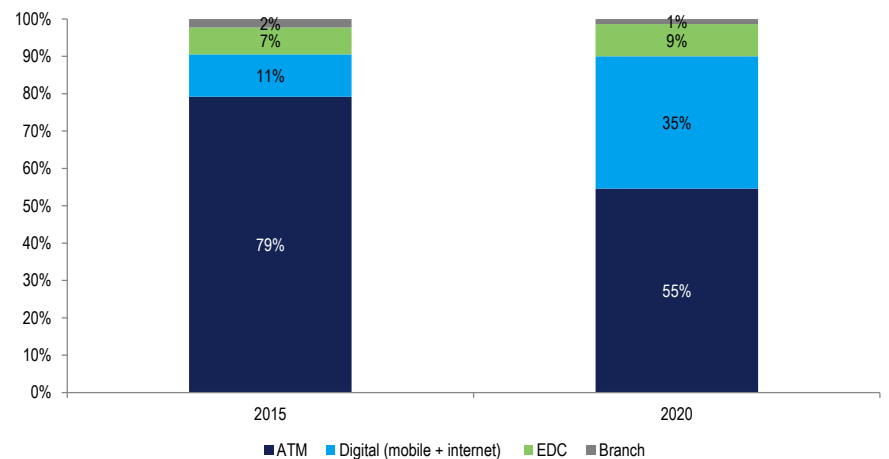
BBRI takeaways: focusing on its core has been fruitful; we remain sceptical on the AGRO's prospect as digital bank

In contrary with other banks, we like BRI strategy to focus on its core micro business. BRIMo has been fruitful while BRISpot (digital loan underwriting system) has been showing a very promising growth as it has covers micro, consumer and even SME loan. It plans to integrate BRISpot further with ride hailing and fintech going forward. Despite as an early mover in the digital space, we were surprised on how small the digital lending disbursement (at Rp1.4tr/0.1% of its overall loan in FY20 – dominated by Traveloka PayLater and Investree). Separately, it plans to white label both Ceria and Pinang for AGRO to use; however, we remain sceptical on the prospect as: 1) Ceria outstanding loan at Rp61bn (11.6k active users) and 2) Pinang at Rp71bn (18k borrowers) against overall AGRO loan of Rp20tr. Both platforms didn't show massive growth even under BRI and thus, likely less under AGRO.

Leveraging its customer base may be the best strategy for now

In sum, we think there are few important takeaways for investors to consider going forward: 1) leveraging customer base through digital channel (i.e. consolidating product offering under one app) may probably the best strategy for conventional banks (BRI has 130mn deposit customers – bigger than any e-commerce, whereas the rest of the big 4 banks have 20-25mn deposit customers); 2) transition needs to be swift and massive in order to bring opex down (i.e. BMRI plans to close down 200-300 branches every year - currently BMRI has 2.5k branches, and reduce its ATM numbers - 5000 ATMs were being removed last year vs. total ATM of 13.2k as of FY20) – note that G&A accounts for 23% of banks overall costs vs. G&A at digital bank of 10%; 3) open API to e-commerce for instance may not move the needle but just to complement the ecosystem (i.e. BRI's Tokopedia loan stood at mere Rp2.6bn in FY20).

Fig. 1: Breakdown of BMRI transaction value (as % of total)



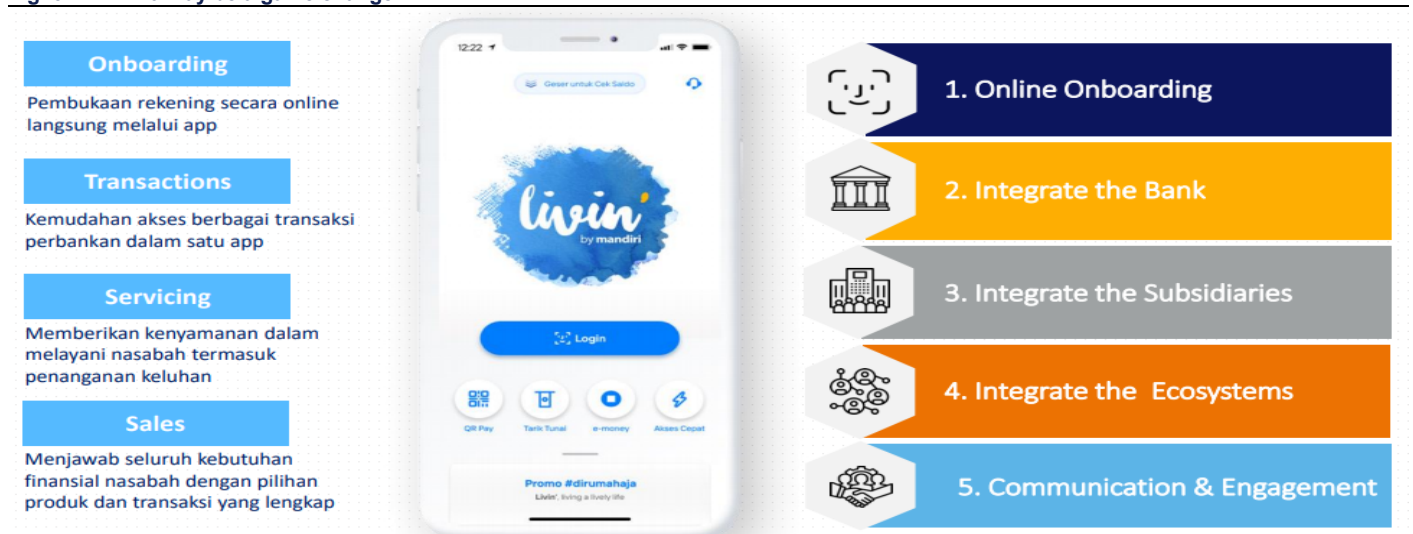
Source: Company, Indo Premier

Fig. 2: BMRI will introduce Livin 2.0 in Sep21



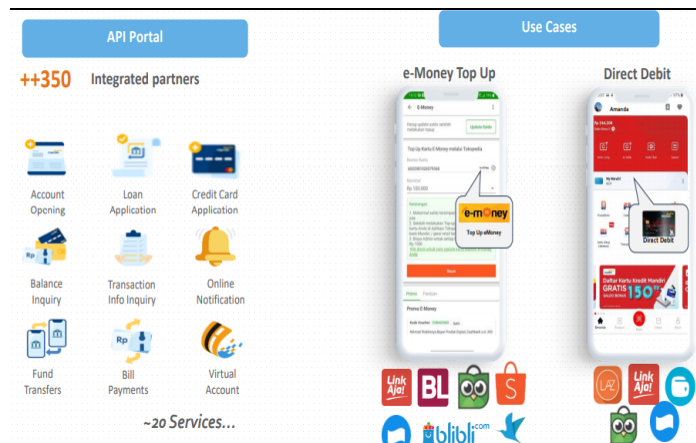
Source: Company

Fig. 3: Livin 2.0 may be a game changer



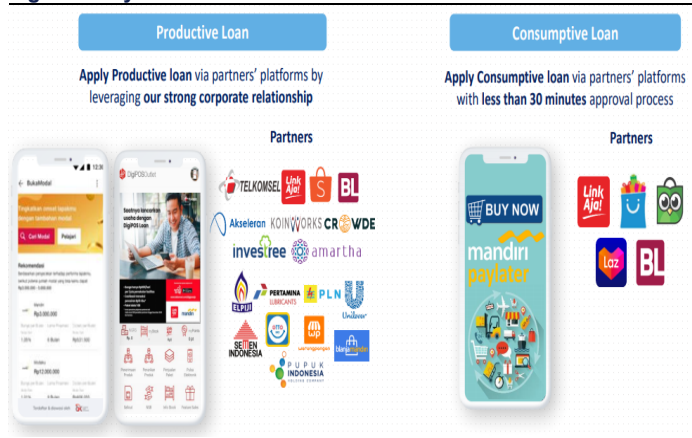
Source: Company

Fig. 4: API Portal and use cases



Source: Company

Fig. 5: Digital loan will be the end game from the collaboration with digital ecosystem



Source: Company

Fig. 6: BRI API

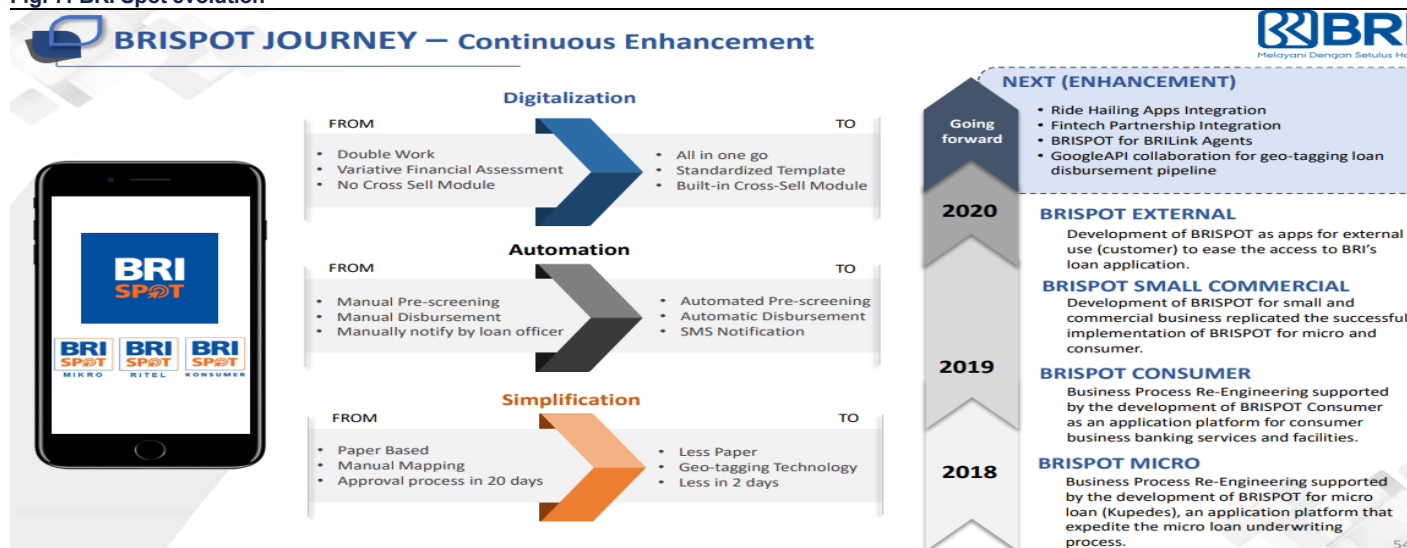
Execute Digital Partnership with Precision & Speed (OpenAPI)
API which stands for 'Application Programming Interface' connects business processes, services, content, and data to channel partner internal teams, and independent developers in an easy and secure way.



...Digital Partnership Model to connect with Fintech and create digital ecosystem. As of Dec 2020, more than 120 partners have been using BRI API with 88 million transactions and Rp43 T sales volume...












Source: Company

Fig. 7: BRI Spot evolution



Source: Company

Fig. 8: BRI digital lending disbursement reached Rp1.4tr in Dec20

Digital loan products			 Digital ultra micro loan		 Powered by 		 Cicil, Cepat, Ceria						
	Rp680bn		Rp113bn		Rp71bn		Rp61bn						
P2P lending partnership													
	Rp437bn		Rp1.2bn		Rp500mn		Rp628mn		Rp397mn		Rp2.6bn		Rp1.1bn

SECTOR RATINGS

- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY : Expected total return of 10% or more within a 12-month period
- HOLD : Expected total return between -10% and 10% within a 12-month period
- SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

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